

Tom Munson

# Red Beryl Company Goes Belly Up

By Gordon Austin ■ Contributing Editor

In early January 2002, workers finished reclaiming the last of the red beryl mines in Utah's Wah Wah Mountains, contouring the area and burying it under six inches of topsoil. Only a year earlier, it had been a large-scale mining operation with a promising future. What happened?

Gemstone Mining Inc. (GMI) had made the most high-profile attempt to date to mine and market red beryl, a rare gem that is still largely a collector's stone. Company representatives were frequently seen at trade shows and other industry gatherings, showing samples and stirring up publicity. The material seemed like it might finally enter the mainstream market until GMI's sudden collapse last June, followed quickly by foreclosure on the property.

To understand why it failed, one needs to go back to the beginning of a seven-year odyssey to make large-scale mining of the deposit work.

In the beginning, the deposit was split into two separate mines, with a number of owners. The first pit, known as the "lower pit" or the "Harris pit," was owned by Rex T. Harris, Gary Harris, Michael Scott Nielson, Tina Harris Nielson, Jerrul A. Alkema, and Angelina Alkema. The second pit, called the "upper pit" or the "Red Emerald Pit," was owned by a company called Red Emerald Inc.

In 1992, both groups were approached by Kennecott Exploration Co., which had decided to expand into colored gemstone mining. Selecting the red beryl mine in Utah as a likely candidate, Kennecott optioned both pits and spent millions of dollars in geological studies, mapping, drilling programs, and bulk sampling. Thousands of tons of samples were processed through the

plant they built. In-house and contract market studies were completed.

By the end of 1996, Kennecott concluded that the red beryl deposit didn't meet its requirements for "diamond-equivalent economics," and began shopping around for someone to acquire its option.

A company called Amelia Investments Ltd. negotiated a deal with Kennecott and the claim owners to extend the option for one year and transfer it to Amelia. Because Amelia was based in Gibraltar, UK, and foreign companies cannot control, own, or lease mining claims in the United States, Amelia formed a new Utah-based corporation to manage its mining assets there — Gemstone Mining Inc. (GMI).

Here's how it worked: GMI mined and recovered the red beryl crystals and then sold them to Red Emerald (Gib.) Ltd. (REL) — a new company set up by

Amelia — which was responsible for cutting and sales. A third company, Canada-based Neary Resources, provided investment funds for both GMI and REL, in exchange for 51 percent of the profits.

One key fact to remember is that none of the REL or GMI management had prior experience with the gemstone industry. Kelly Hyslop, the chairman of the board and the public face of the operation, was a medical doctor who invested in a variety of industries. Another board member, Neary Resources' Brian McAlister, came from a background in metal and mineral mining, as did GMI President Albert Brantley.

Between May 1997 and December 1998, GMI and its associated firms expended additional millions of dollars on the red beryl deposit. GMI completed additional core drilling, bulk sampling, underground sampling, and mapping. Samples were cut to determine yield of cut stones per ton of ore. The results were so favorable that GMI applied for a large-mine permit and prepared to mine on a large scale.

In December 1998, the option agreement was restructured, with GMI paying \$2.5 million and setting up a payment schedule for the remainder of the \$10 million purchase price. The same



month, GMI began large-scale exploitation of the red beryl deposit using open pit mining methods.

All appeared to be going well. Advised by a number of individuals and consultants that marketing was the single most important element of the red beryl project, RFL had decided to get a jump on the effort. In early 1998, the company hired Connor Strauss — formerly of the marketing department in *Lavare*; Kaplan International and De Reers' advertising accounts — to be vice president of sales and marketing.

However, after only about six months with the company, Strauss was let go because of financial problems within the operation. Once financing was re-established in December 1998, RFL hired Neary Resources' Lisa Zumpano to handle its marketing. She oversaw the ill-fated "Red Emerald Millennium Collection," intended as a traveling showcase featuring red beryl in designer jewelry and in the work of well-known gem carvers. The showcase never got off the ground, and Zumpano left the company in December 1999.

Her replacement, Mark Mashaw, joined RFL in January 2000 and lasted less than three months. Like Zumpano, he had little experience in gemstone marketing, and he commented later that what the program really needed were two people, one with a background in the gemstone industry and one who was familiar with product introduction and promotion. "There were much different challenges in the gemstone work than in the larger consumer market," Mashaw said. "One of the key issues was pricing, and it was not resolved during my tenure."

Marketing aside, company insiders say that management made some bad selling decisions. In February 2001, for example, RFL turned down lucrative contracts with television shopping network QVC and jewelry supply company Stuller Inc., contracts that would have given red beryl much greater exposure.

It was ultimately an even worse business choice that led to the company's downfall. Bypassing the rest of the

RFL board, one member — the one who had put up most of the money — decided not to make a \$2.5 million payment that was due to the claim owners in June 2001, and the contract went into default.

Production activities at the mine and processing plant halted, and most of the employees were let go. Operations also ceased at RFL and GMI, and employees were released.



ABOVE: Reclamation of the mine continued even through the snow. RIGHT: The entrance to one of the bulk sample tunnels. BELOW: An aerial view of the upper pit (left) and lower pit (right). Photos by Gordon Austin.



Then in August, two notices of default were filed, and GMI began reclaiming the property. The notices of default will at some point result in the auction of the two deeds of trust to the deposit, which will give the purchaser ownership of the upper and lower pits, respectively. The actual date of the auctions is not currently known. When they do occur, they will take place on the steps of the Beaver County Court House, and the property will go to the highest bidder. If the purchase price is less than the approximately \$5 million owed, GMI will be required to pay the

difference to the original claim owners.

In November 2001, the physical work of reclamation began. The mining equipment was sold or returned to the leasing firm, and the processing plant was also sold. The equipment from the cutting factory, which if new would cost around \$110,000, was being offered for sale for \$35,000.

The reclamation contract between GMI and the state of Utah — required when they applied for their large-mine permit — calls for all pits to be filled in and any remaining waste hauled away or regraded; for the pits to be covered with six inches of topsoil and seeded; and for all associated structures, including the processing plant, to be demolished.

The fate of the red beryl material mined by GMI is uncertain. At press time it was

reported that RFL had approximately 6,000 carats of cut material in a bank vault in Gibraltar. The tens of thousands of tons of unprocessed red beryl-bearing ore that was mined by GMI was left at the mine site and later used in the reclamation process.

The mines may be filled in, but the saga isn't over.

Construction and Mining Services, the company that performed the reclamation — and whose management was formerly part of GMI's mining operation — filed an application in early January for a small scale mining permit to work the upper portion of the property. The application was filed on behalf of Red Emerald Inc., the original owners, who will most likely get control of the pit again. The application projects the beginning of operations to be June 2002.

With the failure of GMI, large-scale commercial production of red beryl may be dead, but it seems nothing can stop the mining completely. ■

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